

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
BY MEDICARE REIMBURSEMENT BY  
COMMUNITY MUTUAL INSURANCE  
COMPANY**



**JUNE GIBBS BROWN**  
Inspector General

JULY 1997  
CIN: A-07-97-01208



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

CIN: A-07-97-01208

JUL 1 1997

Mr. Bob Flemming  
Vice President and Chief Financial Officer  
AdminaStar Federal, Inc.  
9901 Lenn Station Road, Suite 400  
Louisville, Kentucky 46223

Dear Mr. Flemming:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Community Mutual Insurance Company*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1988 through 1995.

During this period, the allowable Medicare pension costs were \$2,043,579. However, Community Mutual Insurance Company (Community Mutual) claimed pension costs of \$3,035,551 for Medicare reimbursement. As a result, Community Mutual claimed \$991,972 in pension costs that were not allowable.

The over claim occurred primarily because Community Mutual's pension cost calculations were based on incorrect asset values for the Medicare segment, and were not computed in accordance with the Cost Accounting Standards (CAS). Additionally, Community Mutual used an inappropriate cost component when computing its indirect Medicare line of business (LOB) percentage, which resulted in an overstatement of the pension costs assigned to indirect Medicare operations.

We recommend that Community Mutual revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs, and that Community Mutual base future claims for pension costs on costs calculated in accordance with the CAS. We also recommend that Community Mutual revise its methodology of calculating the indirect Medicare LOB percentage. The Auditee could not either concur or dispute the factual information and proposed adjustments and reserve the right to respond or discuss with HCFA any issues or disagreements they may have with the audit findings. The auditee's letter is included as Appendix B.

## **INTRODUCTION**

### **BACKGROUND**

Community Mutual has administered Medicare Part A operations under cost reimbursement contracts since 1966. Medicare contractors must follow cost reimbursement principles contained in the CAS, the Federal Acquisition Regulations (FAR), and their Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability.

The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

Additionally, the Health Care Financing Administration (HCFA) incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

### **OBJECTIVE, SCOPE AND METHODOLOGY**

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the allowability of pension costs claimed for Fiscal Years (FYs) 1988 through 1995. Achieving the objective did not require a review of Community Mutual's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-96-01194) and unfunded pension costs (CIN: A-07-97-01207). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified Community Mutual's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to

which Community Mutual funded CAS pension costs with contributions to the pension trust fund. Appendix A contains the details on the pension costs and contributions. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FYs 1988 through 1995.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs consistent with Community Mutual's historical practices.

We performed site work at Community Mutual's corporate offices in Cincinnati, Ohio during September 1996. Subsequently, we performed audit work in our OIG, OAS Jefferson City, Missouri field office.

## **FINDINGS AND RECOMMENDATIONS**

For FYs 1988 through 1995, Community Mutual claimed \$991,972 in pension costs that were not allowable for Medicare reimbursement. The pension costs were unallowable because the costs exceeded the funded portion of the CAS computed costs. The over claim occurred primarily because Community Mutual's pension cost calculations were based on incorrect asset values for the Medicare segment, and were not computed in accordance with the CAS. Additionally, Community Mutual used an inappropriate cost component when computing its indirect Medicare LOB percentage, which resulted in an overstatement of the pension costs assigned to indirect Medicare operations. Community Mutual should revise its FACPs to eliminate the unallowable pension costs, and should base future claims for pension costs on costs calculated in accordance with the CAS. Community Mutual should also revise its methodology of calculating the indirect Medicare LOB percentage.

For FYs 1988 through 1995, Community Mutual claimed pension costs for Medicare reimbursement on FACPs. Community Mutual based its claims on separately computed costs for the Medicare segment plus an allocation of the total company pension costs attributable to Medicare indirect operations. However, the calculation of the Medicare segment's pension costs were based on incorrect asset values.

In our review of Community Mutual's pension segmentation, we determined that Community Mutual had understated the Medicare segment's pension assets as of 1986 by \$602,838. Additionally, Community Mutual's update of segment assets from 1986 to 1995 understated the segment's assets by \$660,350. Since the Medicare segment's asset values were incorrect, the pension costs based on those asset values were also incorrect. See our report on Community Mutual's pension segmentation (CIN: A-07-96-01194) for further details on the understatement of segment assets.

In our review of Community Mutual's unfunded pension costs, we determined the extent to which Community Mutual funded CAS pension costs with contributions to the pension trust fund. We found that Community Mutual made contributions in excess of the CAS pension costs in 1987, and 1991 through 1994. Community Mutual did not assign any of the excess

contributions to the Medicare segment. Instead, all of the excess contributions were assigned to the "other" segment. Subsequently, a portion of these excess contributions were allocated to indirect Medicare operations and claimed for Medicare reimbursement. See our report on Community Mutual's unfunded pension costs (CIN: A-07-97-01207) for further details on costs and funding.

Generally, pension costs allowable for Medicare reimbursement are limited to the lesser of CAS computed pension costs or actual contributions. However, contributions made in excess of the CAS computed pension costs create a prepayment credit that carries forward to fund future period(s) pension costs. The CAS within 48 CFR 9904.412-50(c)(1) states:

*Amounts funded in excess of the pension cost computed for a cost accounting period pursuant to the provisions of this Standard shall be applied to pension costs of future cost accounting periods.*

Any subsequent pension costs that are funded by the prepayment credit(s) are allowable for Medicare reimbursement. However, Community Mutual did not account for its excess funding as a prepayment credit, as required by CAS. Instead, Community Mutual assigned the excess funding to its various lines of business, including indirect Medicare operations. As a result, pension costs claimed for indirect Medicare operations were overstated.

For FYs 1988 through 1995, Community Mutual assigned a portion of its total company pension costs to Medicare indirect operations based on an indirect Medicare LOB percentage. We analyzed Community Mutual's calculation of its indirect Medicare LOB percentages, and found that the percentages were primarily driven by inappropriate cost components.

The majority of the expenses in the cost pool used to compute the indirect Medicare LOB percentages were attributable to cost center 109. Costs accumulated in cost center 109 were non-salary expenses for post-retirement benefits of inactive participants. In accordance with the CAS, the base to be used for allocating pension costs must be representative of the factors on which the pension benefits are based. We found no relationship between the post-retirement benefits for inactive participants and the pension costs of active employees. Accordingly, we believe that the expenses accumulated in cost center 109 are inappropriate for inclusion in the calculation of the indirect Medicare LOB percentage.

We calculated the allowable CAS pension costs for the Medicare segment and for Medicare indirect operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. The calculations reflected our adjustments to Medicare segment pension assets, and treated excess funding as prepayment credits. Additionally, we calculated indirect Medicare LOB percentages based on cost center and salary information provided by Community Mutual. See Appendix A for details.

We compared the allowable CAS pension costs to the pension costs claimed on Community Mutual's FACPs and found:

<u>Fiscal Year</u>	<u>Costs Claimed</u> (A)	<u>Allowable CAS Costs</u> (B)	<u>Variance</u> (A)-(B)
1988	\$ 74,631	\$ 82,503	\$ (7,872)
1989	176,031	93,011	83,020
1990	243,343	106,005	137,338
1991	336,313	202,430	133,883
1992	340,995	221,880	119,115
1993	600,920	439,424	161,496
1994	656,156	493,425	162,731
1995	<u>607,162</u>	<u>404,901</u>	<u>202,261</u>
<b>TOTAL</b>	<b><u>\$3,035,551</u></b>	<b><u>\$2,043,579</u></b>	<b><u>\$991,972</u></b>

For FYs 1988 through 1995, Community Mutual claimed pension costs of \$3,035,551 for Medicare reimbursement. However, the allowable CAS pension costs were \$2,043,579. As a result, Community Mutual claimed pension costs of \$991,972 that are in excess of the allowable CAS pension costs.

### Recommendations

We recommend that Community Mutual:

- ❶ Revise its FACPs to eliminate \$991,972 for pension costs in excess of the allowable CAS pension costs.
- ❷ Base future claims for pension costs on costs calculated in accordance with the CAS.
- ❸ Revise its methodology of calculating the indirect Medicare LOB percentage used to assign pension costs to indirect Medicare operations.

**Auditee Response**

The Auditee could not either concur or dispute the factual information and proposed adjustments and reserve the right to respond or discuss with HCFA any issues or disagreements they may have with the audit findings.

**INSTRUCTIONS FOR AUDITEE RESPONSE**

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified on the following page. We request that you respond to the recommendation in this report within 30 days from the date of this report to HHS official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Sincerely,



Barbara A. Bennett  
Regional Inspector General  
for Audit Services, Region VII

HHS Action Official:

Ms. Dorothy Collins  
Regional Administrator, Region V  
Health Care Financing Administration  
105 W. Adams Street, 14th-16th Floors  
Chicago Illinois 60603-6201

Enclosures

## COMMUNITY MUTUAL INSURANCE COMPANY

CIN: A-07-97-01208

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1995

Description		Total Plan	Other Segment	Medicare Segment
1987 Plan Year Contributions	<u>1/</u>	\$3,013,710	\$2,829,943	\$183,767
Discount for Interest	<u>2/</u>	<u>(214,092)</u>	<u>(201,037)</u>	<u>(13,055)</u>
Present Value of Contributions	<u>3/</u>	\$2,799,618	\$2,628,906	\$170,712
Prepayment Credit	<u>4/</u>	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	<u>5/</u>	\$2,799,618	\$2,628,906	\$170,712
CAS Pension Costs	<u>6/</u>	2,349,181	2,178,469	170,712
Absorbed Credit	<u>7/</u>	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	<u>8/</u>	\$2,349,181	\$2,178,469	\$170,712
Percentage of Costs Funded	<u>9/</u>		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost	<u>10/</u>		\$2,178,469	\$170,712
Allowable Interest	<u>11/</u>		<u>131,162</u>	<u>10,278</u>
Allocable Pension Cost	<u>12/</u>		\$2,309,631	\$180,990
1988 Plan Year Contributions		\$ 0	\$ 0	\$ 0
Discount for Interest		<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions		\$ 0	\$ 0	\$ 0
Prepayment Credit		<u>488,723</u>	<u>447,572</u>	<u>41,151</u>
Present Value of Funding		\$ 488,723	\$ 447,572	\$ 41,151
CAS Pension Costs		2,453,112	2,246,556	206,556
Absorbed Credit		<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target		\$2,453,112	\$2,246,556	\$206,556
Percentage of Costs Funded			<u>19.92%</u>	<u>19.92%</u>
Funded CAS Pension Cost			\$ 447,572	\$ 41,151
Allowable Interest			<u>0</u>	<u>0</u>
Allocable Pension Cost			\$ 447,572	\$ 41,151
Fiscal Year Pension Cost	<u>13/</u>		913,087	76,111
Medicare LOB Percentage	<u>14/</u>		<u>0.70%</u>	<u>100.00%</u>
Medicare Pension Cost	<u>15/</u>	\$82,503	\$6,392	\$76,111

## COMMUNITY MUTUAL INSURANCE COMPANY

CIN: A-07-97-01208

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1995

Description	Total Plan	Other Segment	Medicare Segment
1989 Plan Year Contributions	\$ 937,871	\$ 832,508	\$105,363
Discount for Interest	<u>(73,885)</u>	<u>(65,585)</u>	<u>(8,300)</u>
Present Value of Contributions	\$ 863,986	\$ 766,923	\$ 97,063
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 863,986	\$ 766,923	\$ 97,063
CAS Pension Costs	1,394,062	1,237,449	156,613
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,394,062	\$1,237,449	\$156,613
Percentage of Costs Funded		<u>61.98%</u>	<u>61.98%</u>
Funded CAS Pension Cost		\$ 766,923	\$ 97,063
Allowable Interest		<u>48,891</u>	<u>6,188</u>
Allocable Pension Cost		\$ 815,814	\$103,251
Fiscal Year Pension Cost		\$ 723,754	\$ 87,726
Medicare LOB Percentage		<u>0.78%</u>	<u>99.59%</u>
<b>Medicare Pension Cost</b>	<b>\$93,011</b>	<b>\$5,645</b>	<b>\$87,366</b>
1990 Plan Year Contributions	\$ 960,508	\$ 861,531	\$ 98,977
Discount for Interest	<u>(65,207)</u>	<u>(58,488)</u>	<u>(6,719)</u>
Present Value of Contributions	\$ 895,301	\$ 803,043	\$ 92,258
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 895,301	\$ 803,043	\$ 92,258
CAS Pension Costs	1,404,841	1,260,077	144,764
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,404,841	\$1,260,077	\$144,764
Percentage of Costs Funded		<u>63.73%</u>	<u>63.73%</u>
Funded CAS Pension Cost		\$ 803,043	\$ 92,258
Allowable Interest		<u>51,194</u>	<u>5,881</u>
Allocable Pension Cost		\$ 854,237	\$ 98,139
Fiscal Year Pension Cost		844,631	99,417
Medicare LOB Percentage		<u>0.78%</u>	<u>100.00%</u>
<b>Medicare Pension Cost</b>	<b>\$106,005</b>	<b>\$6,588</b>	<b>\$99,417</b>

## COMMUNITY MUTUAL INSURANCE COMPANY

CIN: A-07-97-01208

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1995

Description	Total Plan	Other Segment	Medicare Segment
1991 Plan Year Contributions	\$3,482,891	\$3,258,855	\$224,036
Discount for Interest	<u>(260,287)</u>	<u>(243,544)</u>	<u>(16,743)</u>
Present Value of Contributions	\$3,222,604	\$3,015,311	\$207,293
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$3,222,604	\$3,015,311	\$207,293
CAS Pension Costs	1,784,917	1,577,624	207,293
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,784,917	\$1,577,624	\$207,293
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$1,577,624	\$207,293
Allowable Interest		<u>100,574</u>	<u>13,215</u>
Allocable Pension Cost		\$1,678,198	\$220,508
Fiscal Year Pension Cost		1,472,208	189,916
Medicare LOB Percentage		<u>0.85%</u>	<u>100.00%</u>
<b>Medicare Pension Cost</b>	<b>\$202,430</b>	<b>\$12,514</b>	<b>\$189,916</b>
1992 Plan Year Contributions	\$2,598,221	\$2,579,691	\$ 18,530
Discount for Interest	<u>(114,067)</u>	<u>(113,253)</u>	<u>(814)</u>
Present Value of Contributions	\$2,484,154	\$2,466,438	\$ 17,716
Prepayment Credit	<u>1,567,079</u>	<u>1,389,131</u>	<u>177,948</u>
Present Value of Funding	\$4,051,233	\$3,855,569	\$195,664
CAS Pension Costs	1,723,095	1,527,431	195,664
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,723,095	\$1,527,431	\$195,664
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$1,527,431	\$195,664
Allowable Interest		<u>70,136</u>	<u>8,987</u>
Allocable Pension Cost		\$1,597,567	\$204,651
Fiscal Year Pension Cost		1,617,725	208,615
Medicare LOB Percentage		<u>0.82%</u>	<u>100.00%</u>
<b>Medicare Pension Cost</b>	<b>\$221,880</b>	<b>\$13,265</b>	<b>\$208,615</b>

## COMMUNITY MUTUAL INSURANCE COMPANY

CIN: A-07-97-01208

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1995

Description	Total Plan	Other Segment	Medicare Segment
1993 Plan Year Contributions	\$6,498,354	\$6,250,147	\$248,207
Discount for Interest	<u>(376,114)</u>	<u>(361,748)</u>	<u>(14,366)</u>
Present Value of Contributions	\$6,122,240	\$5,888,399	\$233,841
Prepayment Credit	<u>2,537,670</u>	<u>2,310,676</u>	<u>226,994</u>
Present Value of Funding	\$8,659,910	\$8,199,075	\$460,835
CAS Pension Costs	5,151,881	4,691,046	460,835
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$5,151,881	\$4,691,046	\$460,835
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$4,691,046	\$460,835
Allowable Interest		<u>282,440</u>	<u>27,746</u>
Allocable Pension Cost		\$4,973,486	\$488,581
Fiscal Year Pension Cost		4,129,506	417,599
Medicare LOB Percentage		<u>0.84%</u>	<u>96.92%</u>
<b>Medicare Pension Cost</b>	<b>\$439,424</b>	<b>\$34,688</b>	<b>\$404,736</b>
1994 Plan Year Contributions	\$6,629,968	\$6,500,212	\$129,756
Discount for Interest	<u>(316,175)</u>	<u>(309,987)</u>	<u>(6,188)</u>
Present Value of Contributions	\$6,313,793	\$6,190,225	\$123,568
Prepayment Credit	<u>3,806,211</u>	<u>3,473,846</u>	<u>332,365</u>
Present Value of Funding	\$10,120,004	\$9,664,071	\$455,933
CAS Pension Costs	5,221,306	4,765,373	455,933
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$5,221,306	\$4,765,373	\$455,933
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$4,765,373	\$455,933
Allowable Interest		<u>238,635</u>	<u>22,832</u>
Allocable Pension Cost		\$5,004,008	\$478,765
Fiscal Year Pension Cost		4,996,378	481,219
Medicare LOB Percentage		<u>0.67%</u>	<u>95.58%</u>
<b>Medicare Pension Cost</b>	<b>\$493,425</b>	<b>\$33,476</b>	<b>\$459,949</b>

## COMMUNITY MUTUAL INSURANCE COMPANY

CIN: A-07-97-01208

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1995

Description	Total Plan	Other Segment	Medicare Segment
1995 Plan Year Contributions	\$4,617,391	\$4,617,391	\$ 0
Discount for Interest	<u>(183,651)</u>	<u>(183,651)</u>	<u>0</u>
Present Value of Contributions	\$4,433,740	\$4,433,740	\$ 0
Prepayment Credit	<u>3,317,182</u>	<u>2,974,072</u>	<u>343,110</u>
Present Value of Funding	\$7,750,922	\$7,407,812	\$343,110
CAS Pension Costs	3,317,182	2,974,072	343,110
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$3,317,182	\$2,974,072	\$343,110
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$2,974,072	\$343,110
Allowable Interest		<u>123,190</u>	<u>0</u>
Allocable Pension Cost		\$3,097,262	\$343,110
Fiscal Year Pension Cost		3,573,949	377,024
Medicare LOB Percentage		<u>0.78%</u>	<u>100.00%</u>
<b>Medicare Pension Cost</b>	<b>\$404,901</b>	<b>\$27,877</b>	<b>\$377,024</b>

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rates, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.

## COMMUNITY MUTUAL INSURANCE COMPANY

CIN: A-07-97-01208

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1995

- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs. The calculation of the prepayment credit is shown in our report of Community Mutual's unfunded Medicare segment (CIN: A-07-97-01207).
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare. See our audit of Community Mutual's unfunded Medicare segment for more details concerning how the CAS costs were computed.
- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension cost. The credit is used first to fund the CAS pension cost before any current or prepaid contributions are considered for funding. Community Mutual did not have any accumulated unabsorbed credit during the period of our review.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(i).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purpose of illustration the percentage of funding has been rounded to four decimals.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

## COMMUNITY MUTUAL INSURANCE COMPANY

CIN: A-07-97-01208

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1995

- 11/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of each quarter.
- 12/ The allocable CAS pension cost is the amount of pension cost which may be allocated for contract cost purposes.
- 13/ We converted the calendar year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth of the prior year's costs plus three-fourths of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's pension costs plus an allocable portion of the other segment's pension costs attributable to indirect Medicare operations.
- 14/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages for years 1988 through 1994 from documents provided by Community Mutual. However, Community Mutual could not provide the data necessary to determine the Other Segment's Medicare LOB percentage for 1995. Instead, we used an average of the Other Segment's Medicare LOB percentages from 1988 through 1994. The Medicare Segment's Medicare LOB percentage for 1995 was provided by Community Mutual.
- 15/ We computed the Medicare Pension Cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.

June 16, 1997

Ms. Barbara A. Bennett  
Regional Inspector General for  
Audit Services, Region VII  
601 East 12th Street, Room 284A  
Kansas City, MO 64106

RE: Review of Medicare Contractor's Pension Segmentation.  
Review of Unfunded Costs.  
Review of Pension Costs Claimed for Medicare Reimbursement

Dear Ms. Bennett:

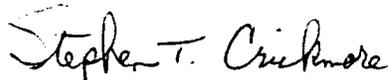
With regard to the referenced draft audit reports, we have engaged a consultant who is an expert in applicable laws and actuarial issues related to pension costs. As of this date, we have not received the workpapers and documentation from the Health Care Financing Administration (HCFA) Staff who provided the actuarial calculations which are the basis of most of the adjustments proposed in your audit reports.

Accordingly, at this time we cannot either concur or dispute the factual information and proposed adjustments and reserve the right to respond or discuss with HCFA any issues or disagreements we may have with the audit findings.

Pension plans and the regulations and Cost Accounting Standard related thereto are complex and technical matters. I understand your desire to issue the final pension audit reports. We do not object to the final reports being issued as long as we retain the right to discuss, challenge and/or appeal any issues resulting from our analysis of the draft reports and detailed documentation supporting the adjustments made in the pension reports.

I appreciate the assistance and cooperation extended by Mr. Jack Morman of your staff during our review on this matter.

Sincerely,



Stephen T. Crickmore  
President and CEO

STC/jp

Ref. #97-06-052

cc: J. Hannah  
R. Toller